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CENTRAL INTELLIGENCE AGENCY
WASHINGTON 25, D.C.

CIA/NER/S-05959-74

25 February 1974

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MEMORANDUM FOR: Donald Dembowski
AID/SA/VN/EP
3311 New State

SUBJECT : Imports of South Vietnam and Thailand, 1962-73

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1. In keeping with our agreement at a recent VSSG Economic Panel meeting to support your import analysis of South Vietnam, I am forwarding a contribution comparing South Vietnam's and Thailand's patterns in the 1960s and the 1970s. The tables, inspired by discussion with you and compiled by [redacted] of this office, are preliminary analysis on the end-use of particular commodity lines. It should be emphasized that the choice of Thailand reflects your interest and data availability, but the broad conclusions that flow from this approach have extremely limited use in analysis of the extent to which South Vietnam has reduced its imports of "luxuries."

2. Broadly, the data show that South Vietnam's gains in consumer goods' categories are largely a reflection of food needs and that non-food consumption imports are not significantly out of line with the Thai experience. As a corollary, one can also note that South Vietnam shows a smaller capital goods share that reflects both its stage of development and the peculiar pressures to which it has been subjected in recent years. I am dubious that this really says much more than that Thailand is a major grain exporter and South Vietnam a grain importer, Thailand has advanced further in economic development, and Thailand has substantially higher foreign exchange reserves and a more relaxed situation with respect to the full range of imports.

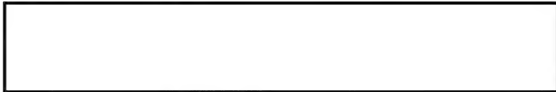
3. To get a more solid or meaningful base, it would be necessary to analyze in much greater depth the import patterns of large numbers of less developed countries in situations of stress roughly comparable to that of South Vietnam during

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1965-73. Even having done this, I would question whether comparisons with other countries would be particularly meaningful at the level of aggregation presented in the attached tables. Consumer goods include everything from vital food and pharmaceuticals to electric appliances and cognac. Moreover, arbitrary distinction in the stage of production chosen often makes considerable differences in the conclusions. Thus, imports of automotive, air conditioner, or refrigerator parts were industrial inputs in the Philippines during the 1950s, but little more was done to these than to assemble them. Although we have made some attempt to adjust for these sorts of differences in end-use in South Vietnam and Thailand, one need only ask, for example, whether vehicles are consumer goods or investment in the truck park to begin to encounter some arbitrariness in allocation. One way to get around this sort of problem would be per-capita comparisons (adjusted for income level) of selected import lines at a much lower level of aggregation (e.g., POL, sugar, dairy products, transistor radios, or textile yarns).

4. At the risk of moving somewhat out of the present context, I take this opportunity to again make the point I have made so many times in the past about "luxury" goods. The more efforts made to reduce the flow of these goods into South Vietnam, the greater the profitability of producing them at home. Each time we attempt to suppress domestic demand by raising prices through perequation taxes, import controls, or other means, we reduce somewhat the quantity demanded by raising the average price. At the same time we alter domestic prices in such a way that profit incentives for smuggling or manufacture of the banned goods are increased. This does not argue against all sumptuary taxes or duties, but it does require that we have a very clear idea of what constitutes "luxury" in the Vietnamese context. Far beyond the question of what is suitable for them and who should judge it is the issue of the extent to which our tinkering with relative prices produces development results in conflict with our broader goals.

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/ Chief
Economic Branch

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South Vietnam: Structure of Imports, 1962-3, 1972-3^{1/}

	(Values in \$US Millions, current prices)					
	1962-63 Average	Percentage	1972	Percentage	1973 ^{2/}	Percentage
<u>Consumption Goods</u>	<u>116.1</u>	41.0	<u>347.7</u>	46.7	<u>424</u>	57.3
Food	49.6	17.5	168.6	22.6	283	38.2
Other	66.5	23.5	179.1	24.1	141	19.1
(POL)	(9.2)	(3.3)	(37.8)	(5.0)	(40.7)	(5.5)
<u>Raw Materials and Intermediate Goods</u>	<u>101.2</u>	35.8	<u>247.5</u>	33.2	<u>212</u>	28.7
For Consumer Goods	40.5	14.3	106.8	14.3	106	14.4
For Capital Goods	60.7	21.5	140.7	18.9	106	14.3
(POL)	(9.2)	(3.3)	(37.8)	(5.0)	(40.7)	(5.5)
<u>Capital Goods</u>	<u>65.6</u>	23.2	<u>149.4</u>	20.0	<u>104</u>	14.0
(Fertilizer)	(14.0)	(5.0)	(25.7)	(3.5)	(39)	(5.3)
Total	282.9	100	744.6	100	740.	100

1. Sources: IBRD, Report No. 315-VN, Current Economic Position and Prospects of the Republic of Vietnam, 18 January 1974 (from NBVN Sources) and NBVN, Statistiques, Economique et Financieres, December 1973. See methodological notes attached.

2. Annual totals are based on data for the first three quarters of 1973.

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Thailand: Structure of Imports, 1962-3, 1972-3 ^{1/}

			(Values in \$US Millions, current prices)			
	1962-63 Average	Percentage	1972	Percentage	1973 ^{2/}	Percentage
<u>Consumption Goods</u>	<u>254.0</u>	42.3	<u>386.9</u>	25.0	<u>478.0</u>	23.9
Food	40.0	6.7	81.2	4.0	72.0	3.6
Other	214.0	35.6	325.7	21.0	406.0	20.3
(POL)	(30.6)	(5.0)	--	--		
<u>Raw Materials and Intermediate Goods</u>	<u>135.3</u>	22.6	<u>612.4</u>	39.7	<u>836.0</u>	41.8
For Consumer Goods	69.3	11.5	371.9	24.1	510.0	25.5
(POL)			(77.9)	(5.0)	(101)	(5.0)
For Capital Goods	66.0	11.0	240.5	15.6	326.0	16.3
(POL)	(30.6)	(5.0)	(77.9)	(5.0)	(101)	(5.0)
<u>Capital Goods</u>	<u>210.9</u>	35.1	<u>544.5</u>	35.3	<u>686.0</u>	34.3
(Fertilizer)	(7.9)		(43.9)	(3.0)	(62.4)	(3.1)
Total	600.2	100	1,543.8	100	2,000.0	100

1. Source: Bank of Thailand Monthly Bulletin, December 1973

2. Annual total derived from data for first three quarters of 1973.

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Notes to Tables

The attached tables compare imports by major end-use category for South Vietnam and Thailand. Average imports in 1962-63 were used as a base to determine whether there had been significant shifts in import composition over the last ten years. This period was chosen because it represents the last stage in Vietnam before the beginning of large-scale warfare in 1965 and attendant economic distortions.

- The break-out by end-use was made as consistent as possible for the two countries; but, given the limitations of the data, they show at best only broad trends. Described below are the major categories and heroic assumptions made in distributing certain key imports.

Consumption Goods

This category comprises both durable and non-durable consumer goods. Food, the major non-durable, includes all grain, dairy products, and sugar, but excludes tobacco. Other consumption goods as shown include pharmaceuticals, finished textiles, motorcycles and miscellaneous small items. Also included is one-half of refined petroleum products imports assumed to be used by the non-commercial sectors. In the Thai case, however, no POL imports in 1972 and 1973 were assigned to this category because POL, imported as refined products in 1962-63, shifted to nearly all crude oil by 1972-73. Hence, POL became an

industrial input.* In Vietnam POL imports during the decade continued to be final products. Imports of automobiles, trucks, tires, and spare parts were divided evenly between consumption and capital goods.

Raw Materials and Intermediate Goods

This category has been roughly divided into inputs for consumption goods and inputs for capital goods. Materials for consumption goods include fibers for textiles, yarn, and thread, tobacco, plastics, a portion of chemicals, and, in the Thai case, one-half of POL in 1972-73. The major items in capital goods inputs are construction materials, metals, and the remaining one-half of POL imports.

Capital Goods

Included here are fertilizer, pesticides, most machinery, tractors and an assumed one-half of motor vehicles and parts not covered in consumption goods.

* Note, however, that half of the crude is still picked up in the following section as an industrial raw material for consumer end-use.